C5150-2

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DRUG STORE NEWS

Vol. 11/N t year of serving chains, wholesalers and high-volume independents Published by Lebhar-Friedman Inc. Aug. 28, 1989

Mc on Corp. seeks or-nothing re ship with PCS

By Pamela Meek

SAN FRANCISCO — McKesson Corp. announced it is looking to sell its stake in PCS or move to totally control the third-party prescription claims processor in which it has an 86-percent interest. PCS processed 90 million script claims in 1988.

The move follows months of pressure brought by drug chains and independents who want McKesson to become accountable for many of the controversial reimbursement plans administered by Phoenix-based PCS.

To stay competitive in the third-party arena, PCS offers employers and insurance carriers a variety of cost-containment reimbursement options. Yet some of these plans call for reimbursement levels at the average wholesale price minus 10 or 20 percent; many of McKesson's customers want the wholesaler to pressure PCS to refuse to administer these discounted third-party plans.

Thomas W. Field Jr., chairman of McKesson and PCS, attempted to placate pharmacists in February by explaining McKesson's arms-length relationship with PCS. Still, the fervor has not died. Rite Aid, for example, has stopped accepting PCS-administered plans in several of its markets because the reimbursement levels were allegedly below the cost of doing business.

(See related McKesson article, p. 22.)

McKesson is now reviewing its options for PCS with the help of an investment banker, and although James Cohune, director of public relations, could not disclose a time frame for the decision, he said the move "should not drag out forever."

Dart files Chapter 11 to aid recasting effort

By David Vaczek

LANDOVER, Md. — With as much as $15 million in cash and bank credit on hand to pay vendors, Dart Drug Stores plans to maintain its costly chainwide repositioning effort despite filing for Chapter 11 protection this month, company spokespersons said.

"They intend to go ahead with the basic business plan," said William Perlstein, Dart's bankruptcy lawyer, with Wilmer, Cutler & Pickering. That would include an ambitious menu of store renovations, free prescription deliveries, high service levels and significant charitable donations—meant to improve Dart's long-tarnished image in the Greater D.C. retail hotbed.

Dart Drug Stores, by seeking Chapter 11 protection, is buying time to reposition itself and improve stake in Greater Washington retail hotbed.

The chain's longstanding discount image under founder Herbert Haft has made it difficult for today's cleaner, service-oriented operation under Fantle to attract heavy customer traffic. Meanwhile, Rite Aid has usurped the role of market discounter by offering its everyday low-price approach in 84 made-over Drug Fair stores acquired last year. Rite Aid, for example, now advertises beer and wine as loss leaders, once a Dart trademark.

Peoples, with its strong pharmacy image, holds a dominant 45 percent market share here, followed by Dart's 20 percent, Rite Aid's 16 percent, Giant's 12 percent and F&M's 7 percent, according to Metro Market Studies.

James Schwarz, executive vp and general counsel at Dart, confirmed management's "business as usual" stance. He is part of the team

See **Dart**, *page 21*

Challenges for the '90s eyed:

Broad agenda set for NACDS Rx meet

Horner

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Kusserow

WASHINGTON, D.C. — At press time, almost 800 drug industry executives and 150 exhibitors were planning their strategies for working the 32nd annual NACDS Pharmaceutical Conference, Aug. 27-30 at the Washington Hilton & Towers here. An array of speakers and seminars will address the challenges for pharmacy in the 1990s.

Constance Horner, U.S. Undersecretary of Health and Human Services, will kick off the Monday morning business session with details on the Bush Administration's health policy agenda.

In addition, Donald N. Muse, principal analyst for Medicare and Medicaid in the Congressional Budget Office, will discuss future directions in health-care financing. Muse will be joined by Hemant K. Shah, a financial analyst specializing in the pharmaceutical, hospital supply and generic drug industries. Shah will focus on the Medicare Catastrophic Act's effect on the pharmaceutical industry and retail trade.

A highlight of the conference will be the unveiling, dur-

See **Rx**, *page 21*

LATE NEWS

- TORONTO — The Boots Drug Stores logo will soon disappear from the Ontario retail landscape, as Oshawa Group Ltd. makes final preparations for a name change at the 108 drug stores it acquired from Boots' British parent company last year. The switch in logos from Boots to Pharma Plus Drugmarts will occur in September or October, according to a spokesman.
- LOS ANGELES — Pacific Enterprises blamed "highly competitive pricing in key markets" for declining operating earnings at its Thrifty Corp. drug store division in the second quarter. Thrifty reported after-tax operating income of $11 million for the period ended May 31, compared with $12 million last year. Sales jumped 49 percent, to $719 million, largely due to the recent acquisition of Pay 'n Save in the Northwest.
- WASHINGTON — The FDA, broadening its inquiry into the generic industry, said it is testing the 30 most prescribed generic drugs, along with the original patented versions, to make sure their formulations are Federally approved.

Newly-trim Peoples turns to its strengths

ALEXANDRIA, Va. — Peoples Drug Stores, following this month's sale of its last big block of Midwestern stores to a new drug chain headed by Roger Grass, can devote its full energies to raising profitability of a core of 500-plus stores in its strongest markets.

Over the past eight months, Peoples has divested itself of three outlying divisions: 85 Reed Drug stores in the Southeast to Big B in January, 114 stores primarily in Ohio to Rite Aid in March, and the pending sale of 120 stores, mainly in Indiana, to Grass's Price Right Discount Pharmacies.

Cash raised from the sale of these "underperforming assets" will be used to help retire debt of parent company Imasco Ltd. of Canada. "It will reduce Peoples' interest rates and will speed up the return to greater profitability,"

David Eisenberg
Managing streamlined chain

See **Peoples**, *page 21*

NEWS IN BRIEF

Albertson's expands Texas territory

BOISE, Idaho — Stepping up its coverage of the Texas market, Albertson's is purchasing three Skaggs Alpha Beta combo stores in Austin for an undisclosed amount.

The deal comes only months after Albertson's acquisition of nine Tom Thumb stores—six of which were also in Austin. The latest move will give Albertson's 58 stores in Texas, while it will bring the company's total store count to 505.

"Texas is very good for us, so we are very happy to expand there," explained company group vice president of finance Craig Olson. He said Albertson's is continually on the lookout for potential acquisition sites in the market.

The Skaggs stores include pharmacies and run approximately 55,000 square feet. According to vp-finance Craig Olson, the stores will not require remodeling, only resetting to the Albertson's standard merchandising approach.

Given Federal Trade Commission and the Department of Justice approval, the transaction is expected to close in October.

Although unrelated to the acquisition, according to Olson, Albertson's is preparing to open a full-line distribution facility this year in Fort Worth, Texas. The DC will be the chain's largest at 731,000 square feet, and will see partial use this November and then be fully operational in January.

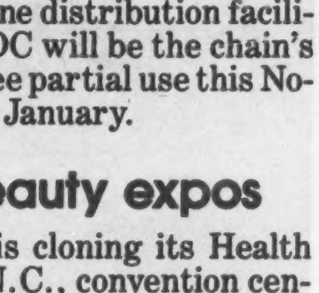
Revco plans 2 health & beauty expos

TWINSBURG, Ohio — Revco D.S. is cloning its Health and Beauty Expo using the Charlotte, N.C., convention center as the site for a two-day extravaganza March 30 and 31, 1990.

The chain will also hold an expo in Cleveland May 18, 19 and 20, 1990, in conjunction with its Revco-Cleveland Marathon Weekend. The last Cleveland show drew 100,000 visitors in two days.

The Charlotte expo, free to the public, will feature exhibitors of health, beauty and fitness products, plus entertainment, exercise and beauty demonstrations, free health screenings and celebrity appearances. Exhibitors will demonstrate products and offer numerous free samples and coupons.

J&J names Gilbert customer relations vp



NEW BRUNSWICK, N.J. — Jerry B. Gilbert has been named vp-consumer sector customer relations at Johnson & Johnson. In his new position, he serves as the single executive contact on business issues not related to a specific company or brand.

Gilbert joined J&J in 1958 as a sales rep, then progressed to sales management, product management and trade relations. He served most recently as director, trade development at J&J Consumer Products.

Columbia names vp-corporate affairs

MIAMI — William Van Dree is the new vp-corporate affairs at Columbia Laboratories. Before coming to Columbia, Van Dree was director of trade relations at Janssen Pharmaceutica. He has also been a division manager and trade relations manager for Johnson & Johnson's dermatological division.

Van Dree's experience in trade relations spans 34 years and includes all aspects of sales.

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Medic Discount will be rolling out its high-convenience, strong-pharmacy formula to a total of 30 stores throughout Greater Cleveland.

Medic Discount accelerates expansion around Cleveland

LAKEWOOD, Ohio — Medic Discount Drug unveiled its third new drug store in the past 16 months in August, and is gearing up for two more from-the-ground-up openings in its home Cleveland market by early next year.

The chain's newest store, located on busy Detroit Avenue just west of the Cleveland city limits, brings Medic's store count to 21 and gives it a second store site in Lakewood, a bedroom community of 67,000. Medic is also expanding and relocating stores as it cashes in on the Cleveland area's economic renewal.

"We could have 30 stores here within the next few years," Tom McWilliams, Medic's director of store operations, told *Drug Store News*.

New distribution center

The 23-year-old chain is also doubling its warehouse space with a move to a new distribution center adjacent to central offices on Cleveland's east side. The center will continue to supply stores with private label and home health care items, advertised specials and volume buys and some H&BAs, but Harris Wholesale will continue to supply Medic stores with the bulk of inventory.

Medic's recent surge is built on a solid foundation of high per-store sales—in excess of $2 million on average without benefit of liquor, beer or wine sales, its executives say—and heathy profit levels. "For the most part, we're using internally generated funds for acquisitions and growth," explained co-owner and president Nathan Lipsyc. "We don't want to overextend ourselves."

Lipsyc and other Medic executives characterize the company as thriving, despite intense competition in the Cleveland market from a host of rivals. Among them: two hometowners, Revco D.S. and Discount Drug Mart; Rite Aid, which swept into northern Ohio with the takeover of Gray Drug two years ago; also, 15 large-scale, high-volume Marc's and Bernie Shulman's deep discount stores in Cleveland and Akron, seven Sid's Get It For Less stores and nine Carls Food and Drug stores.

Competitive advantage

"This market has changed tremendously in the last few years," said McWilliams, himself a veteran of Gray who came to Medic following Gray's acquisition by Rite Aid. "It's very competitive, but we think customer service is our competitive advantage."

"We're competitive on price, but we're certainly not the lowest in town," noted Lipsyc. "I'd like to think our name means a fair, friendly, service-oriented, customer-driven store.

"We figure we have a customer in our store for about six to eight minutes, and it's our job to treat them right once they're in there. We want to make it easy for them to find what they need in a hurry."

Medic has two other strong drawing cards as well: its health care image, and a merchandise mix designed to appeal to a broad array of basic drug store needs. "We offer quick-stop convenience," said Lipsyc. "If widgets sell, we're going to promote them."

The chain is particularly strong in greeting cards—it offers an expanded department of American Greetings' top line—and in photofinishing. "We're second in the country in average per-store dollar volume for our photofinishing supplier (Guardian Photo Labs)," said Zlotnik.

Medic's health care image is cultivated by senior management, all of whom are registered pharmacists, and by a variety of programs. Health care screenings are held in six to nine stores a month on a rotating basis. Pharmacists are trained and encouraged to be accessible to customers. And the chain offers a strong mix of home health care items through both its stores and a separate, freestanding home health care outlet-warehouse.

Pharmasave expanding in Vancouver; entering Alberta market with 31 units

LANGLEY, B.C. — Pharmasave Drugs, the independent cooperative based here, has opened six stores in Vancouver this month. At the same time, the franchiser is preparing to enter Alberta for the first time when it opens 31 stores there next month.

The Vancouver additions, some former independents and some entirely new businesses, give Pharmasave 46 stores in greater Vancouver and bring the franchiser's total to 125 locations in British Columbia and Nova Scotia.

Store grand openings were timed for the back-to-school selling season and, in keeping with the company average, each store runs approximately 5,000 square feet.

According to company advertising manager Martin Ross, the new openings "basically strengthen our market share." In Vancouver, Pharmasave competes with Boots and Shoppers Drug Mart, plus grocery combo retailers like Safeway and Real Canadian Superstore.

With the additional Vancouver stores, Ross said the company's annual sales volume should now hit around $220 million. The Alberta stores, set to open in mid-September under the Pharmasave banner, should generate $50 million in revenue their first year, Ross said.

As with the Nova Scotia market, entered by Pharmasave in early 1988, many of the Alberta stores are former independents. To help serve the new territory, Pharmasave has opened a regional coordinating office in the province.

OPINION

A tree grows in Twinsburg

IN THE MARKET
BRUCE BUCKLEY

The flash and the sharp crack came at the same instant. We jumped. Though we were indoors, we knew the lightning had struck something close by. It turned out to be a small tree, recently planted by a neighbor on our block. I still remember going outdoors after the storm and seeing the split trunk and smelling the burnt wood. The tree was a goner, we kids said.

Now, more than 30 years later, the "doomed" tree is the biggest and healthiest along the street. The only evidence of the lightning bolt is the Y-shaped configuration of the trunk. The trauma actually led to renewed strength and longevity on a city street that hasn't been kind to trees.

The leap from lightning to Chapter 11 may be a bit of a stretch; nevertheless, the tree came to mind about a month ago when I was reading a recent issue of Scripts, an internal newsletter published for the people of Revco. An article described an event at the company involving Boake Sells, the chairman, and employees around the country.

Employees were invited to call Sells to discuss anything on their minds. They didn't have to give their names. Thirty-three people from Alabama to Pennsylvania to Michigan to Texas took advantage of the opportunity to make observations, ask questions or register complaints. The callers touched on everything from merchandising and marketing issues to working conditions to the future of the company.

Sells, who doesn't believe in sugar-coating the facts, fielded suggestions and answered questions patiently and honestly. It was not the first time he had scheduled such an event. By all accounts, it was as successful as previous call-ins to "the main man," as one person called Sells.

The ceo's openness and the importance he attaches to the opinions and concerns of Revco's 26,000 employees are key ingredients, it seems to me, in the long haul from the lightning flash of bankruptcy and disarray to fiscal health. The struggle is far from complete, as the tough news of the company's 1989 financial performance indicates. But stores now have products to sell and are looking better than ever. Up-to-date systems are being installed to track performance at every level of the distribution chain. People seem to be caught up in a new spirit of anticipation. It's apparent that the tree is beginning to leaf.

* * *

Now comes news of another lightning bolt in Rockville, Md. Dart, the once-feisty but now beleaguered Washington, D.C. chain, has filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Though unexpected, the move was not entirely surprising. Like Revco, Dart has been straining to bear up under a gargantuan LBO debt load taken on by a previous management caught up in the lure of easy junk bond debt.

Again like Revco, a new administration, led by Bud Fantle, has been struggling to undo the damage of long neglect and a badly tarnished image among Washington-area shoppers. Everyone agrees that the efforts have paid off in a new look at the stores (renamed Fantle's in an effort to shed the scruffy Dart image). But the chain needs time and a breather from the onerous debt load to allow consumers to catch up to the reality of Dart's new service-oriented drug store image. Chapter 11 will give the chain the time to finish the job started by Fantle and his team almost two years ago. It won't be easy, but Revco's progress should provide some additional incentive for suppliers in whose hands Dart's survival now rests.

Lipsyc's zest born of adversity

THE HUMAN SIDE
AL HELLER

"I'm an eternal optimist," Medic Discount president Nat Lipsyc told me directly, no Pollyannaish manner in evidence.

As a young child, he survived the Holocaust because eleven separate non-Jewish families in Belgium hid him from the Nazis. "I had more mothers. . . ," he said, his voice trailing off.

Lipsyc today, at 51, conveys his message of hope in dark moments to Cleveland teenagers through speeches at temples and YMCA groups. "They have no reference to the Holocaust. It's history to them," he shrugged. "But I come in at the tail end of their studies.

"Some say, 'boy, you really must have suffered.' I tell them the people who really suffered were those with numbers on their arms, the ones in camps. I was lucky," Lipsyc added.

His desire to help bring dignity to the city's needy also shows up in his 16 years of involvement with Shoes For Kids. As a trustee, he has collection canisters in each of Medic's 21 stores, and helps raise the charity's $140,000-plus annually.

"It is really sad when you hear stories about three siblings who share one pair of shoes, so they take turns going to school," Lipsyc said.

Shoes For Kids' goal this year: 76,000 pairs of shoes, 50,000 pairs of mittens and 85,000 pairs of socks for distribution to inner-city schools and home delivery if needed.

Lipsyc's style is upfront and personal. And that is carried throughout Medic Discount, which he and partner Gerald Zlotnik, vp, secretary and director of purchasing, have run together since 1976. Former schoolmates, the two have been business partners since owning independents in the early 1960s.

They survived adversity in their early years as well. In year one, 250 independents were driven out of business in Cleveland; in year two, another 200. Today, Cleveland is resurging and Medic is growing

Nat Lipsyc (r) and Gerald Zlotnik: *Partners from high school to boardroom.*

along with it.

Some of their policies, meant to increase employee and customer comfort and loyalty:

- All new hires, including parttimers, spend a morning at headquarters with Lipsyc and director of operations Tom McWilliams being indoctrinated in customer service policies and the need to handle many store-level functions.
- More clerks per store than competing chains.
- Employee representatives meet quarterly with top management.
- Clerks write up photofinishing orders for customers, and are trained to escort shoppers to departments when asked for help.
- Store managers mail circulars to customers who live some distance from stores and request them.

"We've been through it all—unloaded trucks, filled scripts, and helped a child who just threw up in the next aisle," said Lipsyc. "Don't tell me you don't know what to do. Here is what you do."

Said McWilliams, echoing a Lipsyc sentiment: "We tell people we want them to stay with us forever."

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SPECIAL SAMI REPORT

Slowdown seen in hair care new product intros

Everyone is familiar with the old marketing bromide that new products are the lifeblood of a company's business, or variations on this theme. On several occasions during a weak 1989 sales period in both food and drug stores for health and beauty aids products, I have alluded to the dearth of innovative new products as a reason for unit volume declines in both food and drug stores. During the 12-week period ended June 16, 1989, volume in 52 categories tracked by Arbitron/SAMI fell 2.1 percent in food stores and 2.3 percent in drug stores. The trend downward has been in evidence for several months.

PRODUCT TRACKING
ALAN MILLER

In order to attempt to assess the importance of new products in overall H&BA trends, we have selected the seven-category hair care needs product group for special analysis. Since we wanted to conduct this scrutiny over an extended period of time, we have recorded food store sales rather than drug store volume; at present, our drug store national figures only go back three years.

In each of the seven hair care needs categories, both total category dollar volume and the volume contributed by new brands reaching $1 million or more in each year since 1980 have been posted. We have recorded the dollar movement for the entire product group in each of the nine years, as well as the dollars stemming from new brands which have become members of the Arbitron/SAMI million-dollar brand universe.

During the 1980s, the year with the highest volume from new one million-plus hair care products was 1984, when their contribution amounted to $139.4 million or 10.1 percent of total food store volume for the hair care needs product group. This was the year when hair styling mousse products were in proliferation and new million-dollar brands reached a volume level of $39.7 million.

In addition, 1984 was a banner year for new brands of shampoo which added $49.4 million to category sales, led by the introduction of Perma Soft, Affinity, Finesse, Clairol Essence and Hair Daily Requirement. New conditioning rinses were responsible for $32.9 million in added sales, representing 13.5 percent of total volume of conditioning rinses that year. Sales of hair care needs in 1984 rose $106.7 million or 8.4 percent. This was the highest gain rate except for the 14.3-percent jump in 1981, triggered by inflationary price increases.

After reaching the peak volume provided by new brands in 1984, there were declines in each of the next two years. In 1985, the new product contribution was $98.7 million, down 29.2 percent from the 1984 level. In 1986, the new product volume fell to $63.6 million, a further decline of 35.6 percent from the previous year. In 1986 total sales of hair care needs grew by only $12.7 million, a gain of less than 1 percent. The 1987 gain rate for all hair care needs rose slightly (1.7 percent), due to strong growth in the hair spray category and aided by the addition of the nearly $31 million sales from P&G's Pert Plus national launching. However, in spite of this new product's vitality in the shampoo category, overall sales of shampoo fell $5 million in 1987. It is fairly apparent that the sales of new million-dollar brands of shampoo, which had a decade-high level of $50.9 million, did not expand category volume but merely cannibalized the sales of existing brands.

It would appear that the recession/inflation economy of the early '80s held down new products in the hair care needs product group. But starting in 1983, they poured forth until the more recent '80s when the new entries tended to take volume away from the established brands rather than expanding category volume.

Readers wishing to secure more information on new H&BA products of the 1980s are invited to contact Warren Spence, vp H&BA marketing, Arbitron/SAMI, 55 Greens Farms Road, Westport, Conn. 06880.

Food store sales of hair care needs in the 80s
($ millions)

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Sales	978.4	1,118.4	1,205.4	1,274.4	1,381.1	1,451.4	1,464.0	1,489.1	1,553.7
% change		+14.3	+7.8	+5.7	+8.4	+5.1	+0.9	+1.7	+4.3

Source: Arbitron/SAMI

Food store sales of new million dollar brands of hair care needs

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Shampoo	24.6	11.9	4.6	43.0	49.4	29.3	20.9	50.9	16.3
Hair spray	0.0	7.9	3.9	7.5	12.5	4.9	12.4	12.6	21.6
Hair conditioning rinse	11.6	4.1	19.4	28.9	32.9	33.3	15.2	11.8	1.1
Hair setting needs	0.0	0.0	0.0	0.0	39.7	21.6	7.5	12.0	5.6
Home permanent kits	0.0	0.0	2.5	3.0	0.0	0.0	0.0	0.0	0.0
Hair coloring	0.0	0.0	1.1	0.0	0.0	6.1	6.2	0.0	1.5
Hair dressing needs	0.0	0.0	0.0	7.5	4.9	3.5	1.4	0.0	0.0
Total hair care needs	36.2	23.9	31.5	89.9	39.4	98.7	63.6	87.3	46.1
% new products total	3.7	2.1	2.6	7.1	10.1	6.8	4.3	5.9	3.0

Source: Arbitron/SAMI

Birthrate down, but baby care market up

NEW YORK — The baby care products market will continue to grow, despite a decline in the U.S. birth rate from 3.8 billion in 1985 to 3.5 million in 1995, reported Frost & Sullivan.

The market research firm credits this trend to the more than 60 percent of the female population who will join the labor force by the mid-1990s. These women will be part of two-income families who will have more discretionery income, and a greater need for convenient baby care products sold at their drug stores.

Overall sales for baby care products are expected to reach $7.5 billion by 1993, a significant increase from 1988's overall sales of $5.9 billion. More specifically, the report predicted disposable diaper sales to reach $3.9 billion in 1993, up from $3.1 billion in 1988. Pre-moistened wipes will show sharp growth, and nursing products (nipples, pacifiers, bottles and disposable bottle liners) will enjoy the greatest increase of all baby product segments: 1988 sales of $146 million should reach $206 million by 1993.

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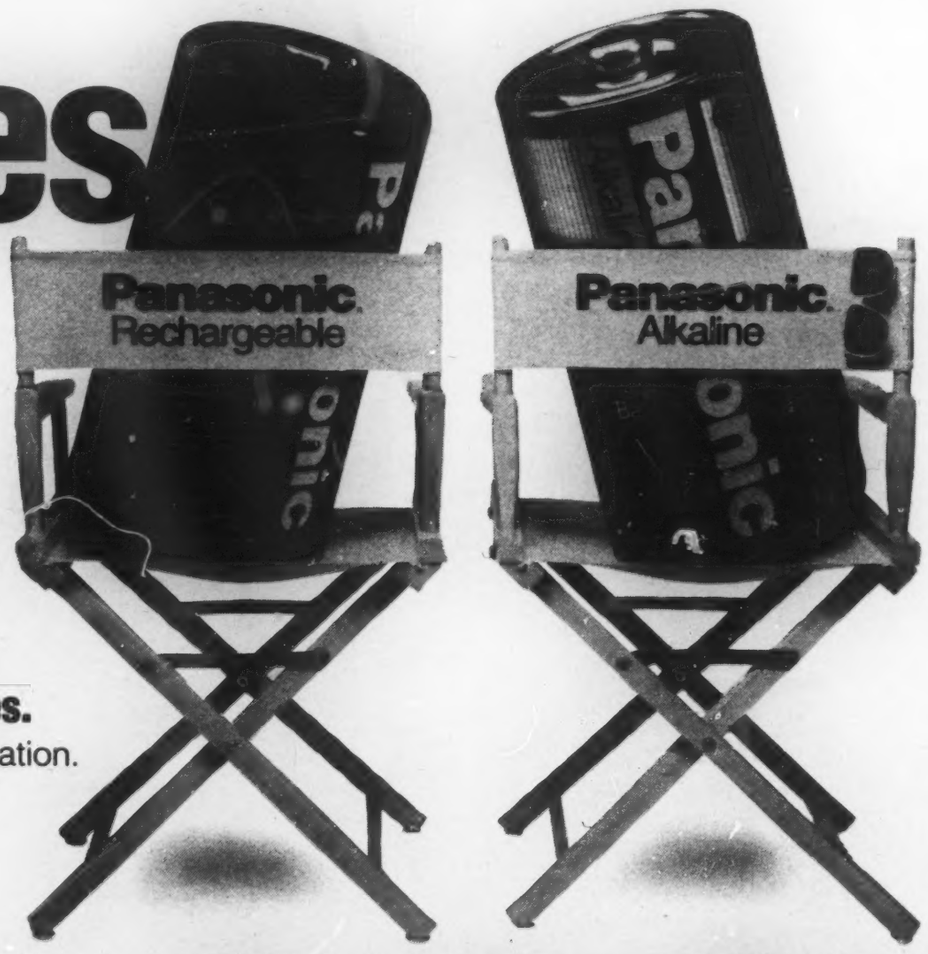

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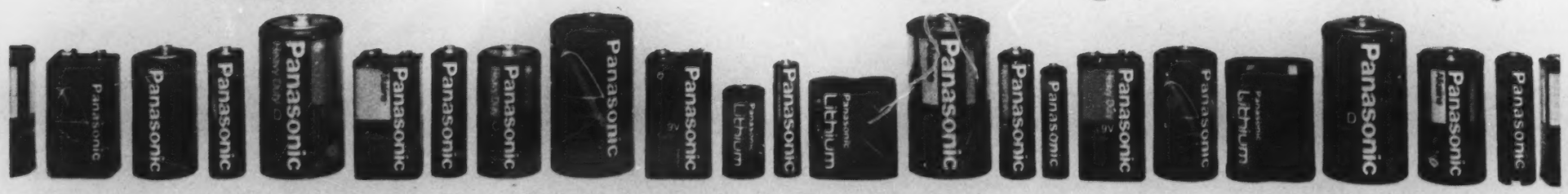

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BEAUTY TRENDS

New launches, old favorites team up for Xmas boost

Buyers gear up ad campaigns, chains ready diplays for Christmas push

Drug chain fragrance buyers are hoping for a strong Christmas this year as a slew of exciting new products find their way into the market.

Many also think that some of last's year best new launches, such as Ex Cla Ma Tion! and Hero, will perform better this year because they've built a loyal following.

In late summer at press time, buyers reported fragrance sales were stagnant or up moderately, without much more category growth anticipated until after Halloween when Christmas displays start going up and ads for Electric Youth, Aspen, That Man and California launches start to break.

Most chains cut back their off-shelf displays for fragrances right after Mother's Day and Father's Day, and most stores usually don't do much promotionally with the catagory until back-to-school. But the big push, of course, happens at Thanskgiving/ Christmas.

Report card on new launches

Buyers, forecasting the hottest launches in women's fragrances this year, cited Dare and Jacyln Smith's California. Both brands are positioned toward the upper end of mass and were initially launched in department stores: Dare at JC Penney and California at Bloomingdale's.

Dare has been in mass stores since early spring and its sales have been fairly strong. Sources for chains like Eckerd, Genovese, Peoples, and Walgreens say Dare has been selling well and they add that the brand is attracting repurchases as well as trial sales.

California is shipping in now, and most buyers are very excited about its prospects. One West Coast executive said he expects its sales will be huge. He called it "the most complete launch I've ever seen" and said Max Factor has done everything right with the line.

The buyer for a Southeast chain said California has everything going for it like "the name recognition with Jaclyn Smith and her broad popular appeal. If they support it as they say, it should be very strong," she said.

Revlon's new teen fragrance Electric Youth was just getting into the stores at press time, but buyers' expectations ranged from mildly optimistic to very positive.

At Arbor Drug in Michigan senior cosmetics buyer David Van Howe said he thinks Electric Youth will do very well. He called the teen market viable, and noted that Night Rhythms, another teen fragrance launched earlier this year, is already selling well. Indeed, most buyers said Night Rhythms is doing well.

But some buyers still worry about the fickleness of the teen market, and they are cautious about brands that are marketed to this segment.

The Bic Parfums line, launched earlier this year, is still getting off the ground. Eic Parfums were expected to appeal particularly to teens, but consumers probably find it hard to think of Bic as a perfume company. "It is the brand's image, not its positioning that's important here," said one source.

Men's fragrances

In men's fragrances, two prestige fragrances launching this fall—Aspen and That Man—are attractively packaged, have nice scents, and appear as if they will be well supported by advertising, buyers said.

Some sources think That Man is priced too high to do dramatically well in drug

Continued on page 12

Many chains are teaching their cosmeticians to recommend "layering" on a fragrance. By selling the idea of "layering" chains can generate multiple sales of body lotions, talcs, and scented bath and shower products.

Drug stores with an upscale image often use fragrances as part of their decor package. This fragrance beauty bar gives a department store look to this Peoples drug store in Alexandria, Va.

Comparison of men's fragrance sales by type of retail outlet

	Sales* (millions of $)	Percentage change	Market share
Drug	$385.2	8.1%	60.7%
Mass merchandisers	139.7	14.5	22.0
Food	109.9	15.8	17.3

*For the 12 month period ended in April 1989.
Source: Nielsen Marketing Research

Comparison of women's fragrance sales by type of retail outlet

	Sales* (millions of $)	Percentage change	Market share
Drug	$640.0	3.9%	88.7%
Mass merchandisers	81.6	(5.7)	11.3

*For the 12 month period ended in April 1989.
** Nielsen does not track women's fragrance sales through food outlets
Source: Nielsen Marketing Research

Comparison of fragrance sales by type of retail outlet

	Sales* (millions of $)	Percentage change	Market share
Drug	$1,025	5.5%	75.6%
Mass merchandisers	221.6	6.1	16.3
Food	109.9	15.8	8.1

*For the 12-month period ended April 1989.
Source: Nielsen Marketing Research

BEAUTY TRENDS | Fragrance Merchandising

Fragrances set for year-round aggressive marketing strategy

Drug chains are merchandising fragrances more aggressively this year, by advertising more and assuring that off-shelf displays are maintained on an ongoing basis, especially when timed to coincide with an ad or promotional event.

Buyers for major chains said that as they upgrade and reposition as cosmetic specialists, they want to be more aggressive with fragrances on a year-round basis.

At press time, several chain merchants interviewed were assembling their first fragrance program for back-to-school ads. Many said they will be bolder at the minor holidays of Mother's Day and Father's Day. "We know we'll never do as much business as we can at Christmas, but we think we can do much better year round with this category then we have," said one source for a Northeastern chain.

In New York, Stephanie Hayter of Genovese Drug Stores said, "You have to use your advertising and your available display space (year round) to let people know you are committed to this category," she says.

Other chains that are either advertising fragrances more often or planning to do it more often are K & B in New Orleans, Eckerd in Florida, Bartell in Seattle, Peoples in Virginia, Longs and American Drug in Calif., and Perry and Arbor Drug in Detroit.

To maximize ad productivity, drug chains are also trying to strengthen merchandising programs. An ad's effectiveness can be neutralized if individual stores aren't able to follow through with creative displays. One of a fragrance buyer's biggest nightmares is that at a peak selling season like Christmas, some of the strongest brands may not be given deserved display space.

This year, more chains are using either videos or supervisors to help store personnel understand the importance of getting displays up early and attractively.

At Arbor Drug, senior cosmetics-fragrances buyer David Van Howe said the chain has always depended on its cosmetics supervisors to ensure that all featured brands are out on the floor and well merchandised.

Double-digit growth

Van Howe has been able to get double digit growth from fragrances at Christmas by featuring 20 to 30 of the best known mass brands, an assortment of the most attractively packaged alternative designer brands, and maybe another dozen or 20 prestige or designer scents.

He said the cosmetic supervisors are his best way of controlling how well stores merchandise fragrances, or any other product in his department. The supervisors, who each handle between 20 and 30 stores, help the head cosmeticians in each store set up the displays. "The supervisors and I will go over what we're going to order in advance of Christmas. When stock is delivered, they'll go to the stores and help set the displays. They also train the cosmeticians to make customer recommendations."

Today, most major chains are starting or expanding a cosmetics supervisor program, and augmenting that with videos. Those chains, including Genovese, American Drug and Eckerd, are working with manufacturers to create 10 minute to 20 minute videos that describe products to be featured in upcoming promotions, and contain suggestions for building and theming displays.

It appears as if most chains won't have such a program in place until early next year, but once buyers have worked out details, videos will be mailed out regularly, perhaps once a quarter. For one, Genovese's Hayter said videos could prove to be a very "cost effective" way to train in-store cosmeticians and department clerks.

New launches, old favorites may give life to holiday sales

Continued from page 11

chains; others feel the brand will need broadcast ads as well as print to support it.

Aspen is more moderately priced, has a pleasing scent and package. It will have some electronic support, and some buyers think it will be able to outperform That Man at mass.

Many buyers think Hero will do well again this year. Chains that promoted it at Father's Day said it sold well.

Old timers like Stetson, Chaps, Jovan Musk For Men and Old Spice were all expected to do well this Christmas. Sales have been consistent throughout the year, most buyers said.

Some sources report that Sante Fe has matured into a consistently strong seller and that Adidas sales have picked up.

Among the established women's brands, Vanderbilt and Lady Stetson are continuing to sell very well, and are expected to do the same at Christmas. Sand & Sable, Charlie Oriental, Jovan Musk For Women and Xia Xiang have done well so far this year, although Sand & Sable is strongest in the Southeast. Some buyers say Emeraude, Toujours Moi and Ciara have been better this year than they have in the past.

The alternative designer category is still flat, yet many buyers say they will promote select lines or brands this Christmas.

Buyers say the lower-priced, higher-quality alternative designer fragrances (ADFs) make good stocking stuffers, they appeal to the price-conscious shopper and they sell well to young kids who are looking for presents for their parents.

The most frequently advertised women's fragrances for Mother's Day 1989

(Percentage of total print ad space for fragrances)

Le Jardin (Max Factor, Revlon)	5.8%
Ex Cla Ma Tion (Coty)	4.7
Lady Stetson (Coty)	4.7
Charlie (Revlon)	3.6
Vanderbilt (Cosmair)	3.3
Jovan Musk (Quintessence)	2.9
Primo (Parfums de Coeur)	2.9
Chantilly (Houbigant)	2.9
Jontue (Revlon)	2.9
Enjoli (Charles of The Ritz, Revlon)	2.6
Wind Song (Prince Matchabelli)	2.2
Friday (Bonne Bell)	2.0
Aviance (Prince Matchabelli)	1.8
Giorgio (Giorgio of Beverly Hills)	1.7
Almay Fragrance (Almay, Revlon)	1.6
Forever Krystle (Charles of The Ritz, Revlon)	1.3
Xia Xiang (Charles of The Ritz, Revlon)	1.3
Sand & Sable (Coty)	1.3
Obsession (Calvin Klein)	1.1
Dare (Quintessence)	1.1

Source: Vereen & Associates

The most frequently advertised men's fragrances for Father's Day 1989

(Percentage of total print ad space for fragrances)

Old Spice (Shulton)	9.7%
Stetson (Coty)	9.0
Mennen Skin Bracer (Mennen)	8.2
Brut 33 (Fabergé)	5.8
Hero (Prince Matchabelli)	5.5
Chaps (Cosmair)	5.5
Iron (Coty)	5.2
English Leather (MEM)	4.5
Coty Musk (Coty)	4.2
Jovan Musk (Quintessence)	3.6
Sante Fe (Shulton)	3.0

Source: Vereen & Associates

This year, more chains are using either videos or supervisors to help store personnel understand the importance of getting displays up early and attractively.

Drug chains' Mother's Day fragrance promotion prices

Product	Size	Ad price	Chain
Le Jardin (Max Factor, Revlon)	1 oz.	$ 9.99	Longs
Le Jardin (Max Factor, Revlon)	1 oz.	6.99	Drug Emporium
Ex Cla Ma Tion (Coty)	1.25 oz.	7.77	Fay's Osco Pay 'n Save
Ex Cla Ma Tion (Coty)	1.25 oz.	6.99	Texas Drug Medic Peoples
Lady Stetson (Coty)	1.5 oz.	7.99	Pay 'n Save Longs Sav-on
Lady Stetson (Coty)	1.5 oz.	6.99	Drug Mart
Charlie (Revlon)	1.15 oz. 2.0 oz.	9.99 9.99	Osco Drug Emporium
Vanderbilt (Cosmair)	0.5 oz.	11.00 12.50	Fay's Brooks
Jovan Musk (Quintessence)	2 oz.	5.77 6.99 7.99	Osco Eckerd Peoples
Primo (Parfums de Coeur)	1 oz.	5.99 5.99	Osco Sav-on

Source: Vereen & Associates, June, 1989 Retail Ad Activity Service

Drug chains' advertised prices for Father's Day fragrances

Product	Size	Ad price	Chain
Old Spice (Shulton)	4.25 oz.	$2.99 3.29	Fantles Drug Mart Taylor
Stetson (Coty)	3.5 oz. 2.5 oz. 2.5 oz.	7.97 3.99 4.47	Fay's Longs Sav-on
Mennen Skin Bracer (Mennen)	3.5 oz.	2.00 1.69 1.69	Osco Drug Mart Rite Aid
Brut 33 (Fabergé)	7 oz. 8.5 oz.	1.79 1.89	Walgreens Osco Sav-on
Hero (Prince Matchabelli)	1.7 oz.	5.99 7.99	SupeRx Longs
Chaps (Cosmair)	1.8 oz.	9.99 8.99	Thrifty Peoples Thrift
Iron (Coty)	2.4 oz.	6.99 7.99	Walgreens Pay 'n Save
English Leather (MEM)	8.0 oz.	4.99 5.99 6.88	Thrifty Pay 'n Save Pay Less

Source: Vereen & Associates

FINANCIAL

McK reports record 1st-quarter revenues, flat income

SAN FRANCISCO — McKesson Corp. announced record revenues for the first quarter ended June 30, but income from continuing operations was flat, which came as no surprise to the company.

"Because of the strong quarter a year ago, we anticipated that the first quarter of the current year would be the most difficult," explained Thomas W. Field Jr., chairman, president and ceo. "Actually, we did a little better than we anticipated, and the outlook for the balance of the year is in line with our long-term objective of increasing earnings per share by 10 percent to 12 percent a year."

Income from continuing operations was $24 million for both the current quarter and the period last year.

First-quarter revenues increased 10 percent to $1.82 billion, from $1.65 billion.

Strong performance in drug distribution and improvement in service merchandising were main contributors to the quarter's record revenues. McKesson Drug Co. first-quarter sales rose 11 percent, to $1.5 billion, and operating profit gained 10 percent, to $34.2 million.

McKesson's two majority-owned publicly traded subsidiaries, PCS and Armor All Products, reported lower first-quarter profits.

PCS [*see related story, page 1*] reported first-quarter revenues of $23.2 million, a 6-percent gain over the $21.9 million for the period last year, but operating profit plunged 64 percent, to $1.9 million from $5.2 million. The nation's largest manager of prescription benefit programs "continues to be affected by unsettled conditions in the health insurance underwriting business, resulting from rapidly escalating health costs," according to McKesson. In addition, PCS is making significant expenditures to implement its new Recap on-line electronic claims processing system, to prepare to bid for a contract to process prescription claims for the new Medicare Catastrophic Care program, and to expand a database designed to track prescription movement.

The number of PCS cardholders was 8.1 million at the end of the quarter, down from 8.2 million at the end of March. In the year-ago period, there were 7.8 million cardholders. During the quarter, PCS processed 22.9 million claims, down from 24 million in the previous three-month period and up from the 22 million processed in the period last year.

Smith's IPO raises $106M; funds to fuel expansion

SALT LAKE CITY — Smith's Food and Drug, the 93-store combo and supermarket chain, raised approximately $106 million in an initial public stock offering last month, Bob Bolinder, executive vp, told *Drug Store News*.

The stock price at press time closed at $23.63, substantially higher than the $15 to $18 initial public offering price per share that the prospectus, underwritten by Goldman, Sachs & Co., indicated.

Net proceeds will be used to develop, construct and open 13 new food and drug combination stores in 1989 and remodel existing stores. In addition, the company plans to enter the Phoenix market in November 1989, and eventually expand its presence in this area to eight stores by the end of fiscal 1990.

These new combo stores will reach 80,000 square feet, Bolinder said, as "these markets can handle bigger stores with a variety of specialty departments." He also said the Phoenix stores will average 80,000 square feet, a little larger than the 72,000 square feet originally planned. "The extra space will give us a little more room in the aisles," he said. The Phoenix stores will be serviced by Fleming Foods, an outside wholesaler.

Smith's currently operates 93 stores in Utah, New Mexico, Nevada, Idaho, Arizona, Wyoming, Texas and Colorado, which are serviced by 1,015,000 square feet of central distribution facilities in Salt Lake City and Layton, Utah.

The company's existing combination stores range in size from 45,000 to 72,000 square feet. Smith's continued emphasis on building larger combination food and drug units resulted in a 21.8-percent increase in revenues over the last four fiscal years.

The company also operates superstores, large supermarkets with limited specialty departments, and conventional stores, more like traditional supermarkets. However, these two store formats are being downsized by the company as it remodels or consolidates them to more closely resemble the combo stores.

A typical Smith's combo store carries over 40,000 items, and offers a variety of supermarket, general merchandise, drugs, toys, hardware, giftware and small appliance products. Specialty departments in these stores include pharmacies, video rental departments, and camera and photo departments with overnight film processing.

The stores operate 88 pharmacy departments, averaging 700 square feet (not including the OTC section in front of the pharmacy), and rely on computerized pharmacy data banks. Smith's competes with Albertson's, American Stores, Fry's (a division of Kroger's), Furr's, and Von's in both the food and drug store business.

Jonathan Ziegler, an analyst at Sutro & Co. in San Francisco, said, "They are an interesting company. They have a proven track record, and in an environment where there are a limited number of supermarkets due to LBOs, it's well managed. Owning their own real estate is a plus for them."

The company currently owns 64 of its 91 stores, including underlying land in most cases.

Name	Symbol	STOCK PRICE From 07/14/89 - 07/31/89 High	Low	Close	Change Amt.	Change Pct.	52-Week High	52-Week Low	EARNINGS/SHARE Last Fiscal Year	Latest 12 Months vs Preceding 12 Months Change Amt.	Latest 12 Months vs Preceding 12 Months Change Pct.	P/E Latest P/E Ratio	DIVIDENDS Indicated Dvd. Rate Amt.	Indicated Dvd. Rate Yield
-	-	$	$	$	$	%	$	$	$	$	%	-	$	%
Chain Store transactions														
Am Stores	ASC	72.50	63.63	70.00	6.13	9.59	72.50	48.63	2.54	-1.54 q	-38.9	28.9	1.00	1.4
Arbor Drugs	ARBR	23.75	19.50	23.00	3.00	15.00	23.75	8.00	.70	.20 n	29.4	26.1	.16	.7
Big B	BIGB	13.50	12.75	12.88	-.50	-3.74	15.38	10.75	.91	-.22 q	-20.8	15.3	.16	1.2
Fay's Inc	FAY	13.13	12.00	13.00	.88	7.22	13.25	7.28	.66	.29 q	70.7	18.6	.20	1.5
Genovese Drug	GDX	11.75	10.75	11.50	.50	4.55	12.88	8.75	.83	.17 q	25.8	13.9	.24	2.1
Longs Drg Strs	LDG	43.13	41.13	42.88	-.25	-.58	43.88	33.63	2.75	.35 q	14.2	15.3	.96	2.2
Medicare Glaser	MGCO	5.75	5.75	5.75	.00	.00	5.88	2.25	-.10	-.23 n	-100.0	NE	.00	.0
Medicine Shoppe	MSII	31.00	28.25	31.00	2.75	9.73	31.75	20.75	1.11	.27 n	26.0	23.7	.10	.3
Perry Drug	PDS	11.75	11.13	11.50	-.25	-2.13	13.50	5.25	-3.15	.20 s	NE	NE	.00	.0
Rite Aid Corp	RAD	40.50	37.00	39.63	2.63	7.09	40.50	29.13	2.30	-.02 q	-.9	17.1	.82	2.1
Walgreen Co	WAG	50.25	45.00	49.50	4.00	8.79	50.25	27.13	2.10	.48 n	24.0	20.0	.68	1.4
Wholesaler's transactions														
Alco Health Svcs	AAHS	25.00	24.50	25.00	.75	3.09	30.25	22.75	1.55	-.11 q	-7.4	18.1	.06	.2
Bergen Bruns	BBCA	31.13	29.38	30.38	.25	.83	31.13	18.75	1.78	.72 n	45.9	13.3	.32	1.1
Bindley Wstn	BIND	9.38	8.50	9.00	.38	4.35	9.38	6.63	.58	.22 q	68.8	16.7	.00	.0
Cardinal Distrb	CDIC	26.00	23.50	25.50	2.00	8.51	26.00	15.69	1.58	.28 q	21.2	15.9	.08	.3
Durr Fillauer	DUFM	22.25	21.13	21.13	-.88	-3.98	23.13	13.25	.92	1.26 s	293.0	12.5	.24	1.1
Ketchum	KCH	6.38	5.38	5.38	-.88	-14.00	9.50	4.75	-4.73	-1.44 q	NE	NE	.00	.0
McKesson Cp	MCK	36.88	34.75	36.63	.75	2.09	36.88	29.63	2.28	.05 f	2.2	16.1	1.44	3.9
Moore Med	MMD	14.25	12.88	13.50	.50	3.85	15.63	9.00	-2.17	-4.00 q	-100.0	NE	.00	.0
Owens Minor	OMI	12.75	12.13	12.63	.13	1.00	15.88	11.38	1.00	-.35 s	-35.7	20.0	.26	2.1
Manufacturer's transactions														
Abbott Labs	ABT	65.75	61.25	65.75	4.50	7.35	65.75	43.75	3.33	.52 s	17.0	18.4	1.40	2.1
Am Home Prod	AHP	103.00	95.00	103.00	7.00	7.29	103.00	74.25	6.38	.64 s	10.6	15.4	3.90	3.8
Baxter Intl	BAX	23.38	20.75	23.13	2.00	9.47	23.38	16.25	1.31	.15 q	12.6	17.3	.56	2.4
Block Drugs Co	BLOCA	35.50	34.75	35.50	.38	1.07	36.00	28.25	2.55	.26 f	11.4	13.9	.64	1.8
Bolar Pharm	BLR	30.50	26.63	27.88	.88	3.24	32.25	16.38	1.51	.45 q	41.3	18.1	.04	.1
Bristol-Myers	BMY	52.13	47.88	48.25	-1.50	-3.02	52.13	40.75	2.88	.38 q	14.7	16.2	2.00	4.1
Carter-Wallace	CAR	53.00	46.13	52.88	6.25	13.40	53.00	36.25	2.97	.42 q	15.7	17.1	.82	1.6
Forest Labs	FRX	36.00	30.63	35.25	4.38	14.17	36.00	19.25	1.20	.24 f	25.0	29.4	.00	.0
ICN Pharm	ICN	6.88	6.13	6.38	-.13	-1.92	7.38	5.63	.23	1.54 s	NE	70.8	.00	.0
Lee Pharm	LPH	3.50	3.00	3.13	-.38	-10.71	5.50	3.00	-.23	.49 s	NE	NE	.00	.0
Leiner P Nutri	PLI	20.38	19.25	20.13	.88	4.55	20.88	9.13	1.12	.26 f	30.2	18.0	.00	.0
Lilly Eli Co	LLY	64.25	57.75	63.75	5.75	9.91	64.25	40.25	2.67	.51 s	20.8	21.5	1.35	2.1
Marion Labs	MKC	36.00	25.13	35.88	10.63	42.08	36.00	16.38	1.46	.50 f	52.1	24.6	.36	1.0
Merck & Co	MRK	77.88	71.50	76.00	4.13	5.74	77.88	53.50	3.05	.77 s	29.1	22.2	1.80	2.4
Mylan Labs	MYL	10.38	9.38	9.50	-.63	-6.17	11.50	7.50	.50	-.29 q	-40.3	22.1	.10	1.1
Newport Pharm	NWPH	3.94	3.44	3.44	-.56	-14.06	6.56	1.75	-.45	-.34 s	NC	NE	.00	.0
Par Pharm	PRX	10.38	7.00	7.50	-2.00	-21.05	13.00	7.00	.99	-.21 s	-18.9	8.3	.04	.5
Pfizer Inc	PFE	65.38	58.25	65.00	6.25	10.64	65.38	49.88	4.70	.56 q	13.1	13.5	2.20	3.4
Robins, AH	QRAH	33.25	30.00	33.13	3.25	10.88	33.25	21.88	2.42	67.78 q	NE	13.1	.00	.0
Rorer Group	ROR	42.00	37.00	41.88	4.75	12.79	48.25	33.63	1.96	-.55 q	-21.6	20.9	.80	1.9
Scherer RP Cp	SCHC	15.75	14.75	15.75	.25	1.61	33.38	14.75	.76	-.28 f	-26.9	20.7	.40	2.5
Scher Plough	SGP	77.75	67.25	76.75	8.75	12.87	77.75	49.50	3.48	.75 s	24.1	19.9	1.80	2.3
Squibb Corp	SQB	114.00	79.13	110.38	30.75	38.62	114.00	60.00	4.30	.80 s	20.5	23.5	2.00	1.8
Syntex Corp	SYN	51.13	46.00	50.75	2.75	5.73	54.50	35.00	2.51	.37 n	15.4	18.3	1.50	3.0
Thiokol Inc	TKC	13.75	12.38	12.88	-.38	-2.83	14.88	12.38	3.33	2.48 n	NC	5.2	.00	.0
Upjohn Co	UPJ	36.00	30.13	36.00	5.38	17.55	36.00	27.00	1.90	.23 s	13.1	18.1	.88	2.4
Warner-Lambrt	WLA	110.75	96.50	110.25	12.38	12.64	110.75	68.13	5.00	1.00 s	21.8	19.8	2.56	2.3
Zenith Labs	ZEN	1.25	1.13	1.13	-.13	-10.00	2.75	1.13	-.89	-.33 f	NE	NE	.00	.0
Other Retailer transactions														
Albertson's Inc	ABS	52.50	48.25	52.50	2.50	5.00	52.50	30.00	2.44	.60 q	30.5	20.4	.80	1.5
K mart Cp	KM	42.00	37.25	42.00	4.25	11.26	42.00	31.25	4.00	.44 q	12.8	10.9	1.64	3.9
Melville Cp	MES	47.25	45.63	47.13	.50	1.07	47.25	33.13	1.63	-1.08 s	-39.6	28.6	1.30	2.8
Penney, JC	JCP	60.75	57.13	60.38	1.38	2.33	60.75	44.88	6.02	1.87 q	45.0	10.0	2.24	3.7

All data are based on sources believed to be reliable, but its accuracy is not guaranteed.
Every effort will be made to correct errors, when discovered, in future issues.

FOOTNOTES

NA - Item not applicable to this type of stock.
NC - Data required for calculation currently incomplete in our files.
NE - Negative earnings invalidate calculations.
NM - No meaningful figure.

q - First quarter
s - First six months
n - First nine months
f - Fiscal year

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